

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07
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FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 9528
TREASURY DEPT WASHDC PRIORITY
AMEMBASSY BONN
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BRUSSELS FOR USMISSION EEC

PARIS ALSO FOR USMISSION OECD

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - JULY 14-20, 1977

1. SUMMARY: GOVT OF JAPAN POSTPONES UNTIL THE LATTER PART OF
AUGUST DECISIONS ON POSSIBLE FURTHER MEASURES TO STIMULATE
ECONOMY AND ON ACTIONS TO DEAL WITH CURRENT ACCOUNT SURPLUS.
BUSINESS CIRCLES DON'T LIKE THE DELAY; WHILE OFFICIALS (PRE-
DICTABLY) JUMP TO THE DEFENSE. ANOTHER LARGE CURRENT ACCOUNT
SURPLUS IN JUNE MAKES THE NEED FOR FURTHER MEASURES TO DEAL
WITH THAT SURPLUS APPEAR MORE OBVIOUS THAN EVER. THE OECD ADDS
ITS VOICE TO THOSE CRITICIZING JAPANESE ECONOMIC PERFORMANCE.

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SHARP COMMENTS BEGIN TO CIRCULATE MORE FREQUENTLY IN THE JAPANESE
PRESS IN REACTION TO VARIOUS U.S. URGINGS THAT JAPAN TAKE ACTION
TO DEAL WITH ITS CURRENT ACCOUNT SURPLUS, ALTHOUGH THE PRINCIPAL
FOCUS OF ATTENTION REMAINS ON WHAT JAPAN SHOULD DO. IT IS
STILL PREMATURE TO SPECULATE MUCH ON THE CONTENT OF THE PROBABLE
AUGUST PROGRAM, BUT IT SEEMS LIKELY THAT IT WILL DEAL FAIRLY
COMPREHENSIVELY WITH THE CURRENT ACCOUNT SURPLUS. ONE ELEMENT MAY

WELL BE OIL STOCKPILING. END SUMMARY.

2. THE GOVT DECIDED AT ITS FRIDAY, JULY 15, MEETING OF CABINET COUNCIL ON ECONOMIC POLICY TO REEXAMINE BY LATE AUGUST WHETHER THE EXISTING FLATIONARY PROGRAM IS ADEQUATE AND TO CONSIDER POSSIBLE FURTHER MEASURES TO REDUCE JAPAN'S CURRENT ACCOUNT SURPLUS. DECISIONS ARE THUS POSTPONED UNTIL AFTER PRIME MINISTER FUKUDA RETURNS AUGUST 18 FROM HIS TOUR OF SOUTHEAST ASIA. ALTHOUGH THE GOVT WAS UNDER PRESSURE FROM BUSINESS AND LIBERAL DEMOCRATIC PARTY CIRCLES TO MOVE RAPIDLY TO ADOPT FURTHER EXPANSIONARY MEASURES, THE DECISION TO POSTPONE GIVES THE PRIME MINISTER SOME TIME TO SEE WHETHER HIS OPTIMISM THAT THE ECONOMIC OUTLOOK WILL BE BRIGHTER BY THE TIME HE RETURNS IS WELL-FOUNDED.

3. BUSINESS CIRCLES IMMEDIATELY STARTED TO GRUMBLE AT THE DELAY IN DECIDING ABOUT FURTHER REFLATIONARY MEASURES. THE STRONGER THAN ANTICIPATED SHOWING OF THE LDP IN THE UPPER HOUSE ELECTIONS MAY HAVE MADE CONSERVATIVE ORIENTED BUSINESS CIRCLES SOMEWHAT MORE CONFIDENT ABOUT THE BUSINESS OUTLOOK. BUT THEY ARE STILL PUSHING WITH NOTEWORTHY VIGOR FOR FURTHER REFLATIONARY MEASURES. THE JAPAN CHAMBER OF COMMERCE AND INDUSTRY (NISSHO) THIS WEEK ADDED ITS VOICE TO THAT OF KEIDANREN (REPORTED TOKYO 10559) IN CALLING FOR FURTHER STIMULATIVE MEASURES.

4. SINCE THE ANNOUNCEMENT OF THE DELAY, OFFICIAL SPOKESMEN HAVE SPENT SOME TIME DEFENDING THE PAUSE TO REFLECT. SPEAKING TO THE LIMITED OFFICIAL USE

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BANK OF JAPAN BRANCH MANAGERS MEETING ON MONDAY, JULY 18, GOV MORINAGA SOUGHT TO COUNTER SUCH COMPLAINTS BY WARNING THAT RASH ACTION NOW, WITHOUT WAITING TO ALLOW THE EFFECT OF RELATIONARY MEASURES TAKEN SO FAR TO BE FELT, HELD THE DANGER OF RENEWING INFLATION AND COULD HAVE A BAD EFFECT ON BUSINESS INVESTMENT. MORINAGA ALSO TOOK THIS OCCASION TO REAFFIRM THAT THE BANK OF JAPAN HAS NO INTENTION TO MANIPULATE THE YEN VALUE ON THE FOREIGN EXCHANGE MARKET AND THAT IT INTERVENED ONLY WHEN NECESARY TO PREVENT "WILD" FLUCTUATIONS. SAYING THAT THE RECENT APPRECIATION OF THE YEN REFLECTS THE NATION'S EXPANDING PAYMENTS SURPLUS, HE SAID JAPAN SHOULD TRY TO TRIM THE SURPLUS TO IMPROVE ECONOMIC RELATIONS WITH OTHER NATIONS.

5. ECONOMIC PLANNING AGENCY DIRECTOR GENERAL KURANARI ON WEDNESDAY OF THIS WEEK SOUGHT TO HIGHLIGHT THE NEED FOR MEASURES TO ASSURE A CONTINUED RECOVERY OVER TIME RATHER THAN MEASURES AIMED SOLELY AT WARDING OFF A POSSIBLE LULL IN THE SECOND HALF OF THIS FISCAL YEAR. HOWEVER, HE REPORTEDLY ALSO WENT CONSIDERABLE DISTANCE TOWARD LINKING THE NEED FOR REFLATIONARY MEASURES TO THE RESULTS OF THE NATIONAL PRODUCT ACCOUNTS FOR THE APRIL-JUNE QUARTER.

6. THE RELEASE OF JUNE BALANCE-OF-PAYMENTS FIGURES THIS WEEK MADE THE NEED FOR FURTHER MEASURES TO DEAL WITH THE CURRENT ACCOUNT SURPLUS APPEAR MORE OBVIOUS THAN EVER. THESE FIGURES (TOKYO 10915) SHOWED THAT JUNE'S \$0.8 BILLION SURPLUS BROUGHT JAPAN'S CURRENT ACCOUNT SURPLUS TO \$2.8 BILLION IN THE FIRST QUARTER OF JFY 1977 (APR-JUN 1977) AND TO \$5.1 BILLION IN THE FIRST HALF OF CALENDAR YEAR 1977 (ALL FIGURES SEASONALLY ADJUSTED). ON THE STRENGTH OF THE SWOLLEN APRIL SURPLUS, THE SECOND QUARTER CURRENT ACCOUNT SURPLUS WAS ACTUALLY LARGER THAN THAT OF THE FIRST QUARTER OF CY1977 (\$2.3 BILLION). THE GROWING, RATHER THAN DECLINING, SURPLUS CAN BE ATTRIBUTED TO SLUGGISH IMPORTS, WHICH DECLINED SLIGHTLY BETWEEN THE TWO PERIODS.

7. THE OECD'S ECONOMIC OUTLOOK REPORTED RELEASED THIS WEEK
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HAS ALSO GATHERED HEADLINES TO THE EFFECT THAT IT RAPS JAPAN'S ECONOMIC PERFORMANCE. PRESS PLAY HERE HIGHLIGHTS THE OECD VIEW THAT THE U.S. IS LIKELY TO CONTINUE TO SHOW SATISFACTORY ECONOMIC PERFORMANCE, WHILE DOMESTIC ECONOMIC ACTIVITY IN JAPAN AND GERMANY IS LIKELY TO SLOW DOWN.

8. SHARP COMMENTS HAVE BEGUN TO CIRCULATE MORE FREQUENTLY

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 EPG-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
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FM AMEMBASSY TOKYO

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IN THE JAPANESE PRESS IN REACTION TO VARIOUS U.S. URGINGS THAT JAPAN TAKE ACTION TO DEAL WITH ITS CURRENT ACCOUNT SURPLUS. ONE PROMINENT EXAMPLE IS A KYODO NEWS SERVICE ARTICLE THIS WEEK ON THE PROBLEMS OF DEALING WITH THE JAPANESE CURRENT ACCOUNT SURPLUS (WITH CONSIDERABLE REFERENCE TO THE BILATERAL U.S.- JAPAN BALANCE, A NOTE WHICH ALSO IS BEING HEARD MORE FREQUENTLY). THIS ARTICLE OPINES THAT IN CONTRAST TO THE RATHER MILD STAND OF THE FORD ADMINISTRATION, THE SENIOR OFFICIALS IN THE CARTER ADMINISTRATION ARE TAKING WHAT MUST BE DESCRIBED AS "ABRASIVE AND FORTHRIGHT POSITIONS." IT ALSO ALLEGES THAT PROPOSALS THAT JAPAN REVALUE THE YEN BY TEN PERCENT OR MORE HAVE COME FROM UNDERSECRETARY COOPER, ASSISTANT SECRETARY BERGSTEN AND REPRESENTATIVE REUSS. RECALLING SECRETARY BLUMENTHAL'S PUBLIC URGINGS THAT SURPLUS COUNTRIES SUCH AS JAPAN, GERMANY AND THE NETHERLANDS SHIFT INTO DEFICIT, THE ARTICLE SAYS THAT THIS APPROACH HAS LIMITED OFFICIAL USE

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"NATURALLY" NOT GONE DOWN WELL WITH COUNTRIES WHICH ARE THE TARGETS OF WHAT THEY MUST CONSIDER AS "GRATUITOUS ADVICE AND DEMANDS." ECHOING AN EARLIER STATEMENT ATTRIBUTED TO FINANCE MINISTRY OFFICIALS (TOKYO 10178), THIS ARTICLE CONCLUDES THAT IT IS CONSIDERED BAD DIPLOMATIC FORM TO TELL OTHER NATIONS WHAT THEY SHOULD DO IN ECONOMIC POLICIES--OR, AT ANY RATE, TO DO SO PUBLICLY.

9. THE ABOVE DISSONANT NOTES ARE OFTEN PACKAGED WITH HANDWRINGING AS TO JUST WHAT JAPAN CAN DO TO CORRECT ITS EXTERNAL IMBALANCE. BUT IT SHOULD ALSO BE MADE CLEAR THAT SOUR NOTES REPRESENT ONLY MINOR PORTION OF CONTINUING DISCUSSION ABOUT VARIOUS POSSIBLE COURSES OF ACTION TO REDUCE CURRENT ACCOUNT SURPLUS. THE TENOR OF MOST PRESS PLAY, OFTEN ATTRIBUTED TO ONE OFFICIAL SOURCE OR ANOTHER OR RELATED TO PRESSURES FROM INDUSTRY FOR FURTHER DOMESTIC STIMULUS, SUGGESTS THAT THE DECISIONS IN THE LATTER PART OF AUGUST WILL INCLUDE A FAIRLY COMPREHENSIVE PROGRAM OF ACTION TO DEAL WITH THE CURRENT SURPLUS. THE GOVERNMENT ITSELF IS CLEARLY CONSCIOUS OF THE DESIRABILITY OF HAVING A GOOD PACKAGE TO DESCRIBE AT THE SEPTEMBER SUB-CABINET DISCUSSIONS.

10. IT STILL APPEARS PREMATURE TO SPECULATE MUCH ON SHAPE OF PROBABLE PACKAGE. HOWEVER, ONE LIKELY ELEMENT IS BECOMING MORE CLEAR. FOLLOWING A MEETING WITH THE PRIME MINISTER YESTERDAY, TOSHIO KOMOTO, CHAIRMAN OF THE LDP'S POLICY

AFFAIRS RESEARCH COUNCIL, TOLD THE PRESS THAT ONE PART OF
THE PACKAGE WOULD BE INCREASES IN ENERGY RESERVES, PARTICULARLY
OIL STOCKS.
MANSFIELD

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